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Opening Statement
Chairman Michael G. Oxley
Committee on Financial Services

Subcommittee on Oversight and Investigations
"Catastrophe Bonds: Spreading Risk"
October 8, 2002

I would like to thank Chairwoman Kelly for holding this important hearing on the use of capital markets to expand insurance capacity. The relevance and timeliness of this topic cannot be overstated. Uncertainty facing the market grows every day as a result of our terrorism losses. Compound that with the sobering thought of successive major catastrophic events hitting our shores, and it is not unthinkable that traditional risk sharing mechanisms could be paralyzed.

As Chairwoman Kelly stated, the Committee has asked the GAO to look at the viability of risk-linked securities as a way to increase insurance capacity. Catastrophe bonds, in particular, provide a unique way for tapping the trillions of dollars of investment capacity in the capital markets. And because the risk associated with these instruments is generally uncorrelated to financial market volatility, they can be particularly attractive for fund managers looking for diversification.

We recognize that often there are frictions in the market that make one instrument preferable to another. Sometimes, those impediments are the result of well intended regulatory regimes. The GAO has identified for the Committee some of the limitations that cat bonds face, and we look forward to any recommendations they may have to address them.

Again, with investment income so severely strained and traditional reinsurance markets hardened after 9-11, now is the time to really examine all options to help supplement the capacity of the industry. The market has shown resilience in the past. In

time, it will recapitalize. In the meantime, I think it is incumbent upon us, working together with private market participants, to look for safety valves to help ease that pressure. As with most things in life, timing is everything. We are one mega-catastrophe away from seeing unprecedented market disruption.

Terrorism insurance legislation remains my top priority as this session draws to a close. However, we also face disasters that are not manmade. Just ask my friend Chairman Baker who I am sure breathed a sigh of relief after Hurricane Lili inflicted far less damage than had been expected.

I commend the Chairwoman for her work on this issue and for putting together this timely hearing. We receive today's testimony with an eye toward potential action next Congress on the issue. It appears we will be a very busy Committee again next year.

I thank the Chair and yield back the balance of my time.